

# Ground Up From The Ground Up



**A consumer's guide to homeowner insurance**

**Deborah Senn**

Washington State Insurance Commissioner

### Technical Notes

In the back pocket of this guide is a comparison guide that will provide consumers with examples of what homeowner insurance may cost. Some of the companies in the comparison guide had to change the examples slightly in order to provide sample premiums. Following are some differences that specific companies asked to include:

**American Bankers** - Examples 5 and 6 - rates include \$25,000 personal liability and \$500 medical payment to others with \$100 deductible. Full contents/liability coverage is based on \$100,000 personal liability.

**American States Preferred** - Example 6 business coverage of PC was rated with \$100 deductible and no coverage off premises.

**AMEX Assurance** - Example 5 - only rated PC separate. Rates for examples 5 and 6 include liability coverage and there is no deductible for coverage on scheduled personal property. All examples include coverage for \$2,000 medical payment to others.

**Eagle American** - quoted earthquake coverages with \$250 deductible.

**Church Mutual** - Example 5 was rated with \$100,000 personal liability.

**CNA** - quoted earthquake coverages with 7% deductible.

**Colonial Penn** - quoted earthquake coverage with 15% deductible. All example 6 rates include coverage for the diamond ring. The rates for examples 5 and 6 include liability coverage.

**Farmers Insurance Group** - Example 6 - diamond ring coverage was quoted with \$250 deductible.

**Nationwide Mutual Fire** - quoted earthquake coverages with a 5% deductible for brick/frame homes and 2% deductible for mobile homes. All example rates include coverage for \$100,000 personal liability and \$1,000 medical payment to others.

**PEMCO** - Example 5 was rated with \$20,000 content value and \$100,000 personal liability. Example 6 was rated with \$50,000 personal property and \$10,000 furniture.

**SAFECO** - Example 5 was rated with \$50,000 content.

**USAA** - Example 1 - quoted with HO6 policy. Example 5 - quoted with \$12,000 renter's policy.

**Valley Insurance** - All rates include \$100,000 liability coverage.

**Yasuda Fire & Marine** - for examples requesting contents-only coverage, liability was automatically included.

**Dear Homeowner,**

As a property owner, you should be prepared for the possibility of loss from fire, lightning, storm, burglary, theft, and/or liability. I hope that this guide on "Homeowner Insurance" will help you choose the right coverage, whether you own a house, duplex, condo, or mobile home – or even if you're a renter.

As part three in a series of consumer guides to insurance, we have also included a comparison guide in the back of this publication. The guide provides hypothetical examples that give consumers an idea of what homeowner insurance costs.

After reviewing this material, if you still have questions or concerns, please call our Consumer Hot Line at **1-800-562-6900**. My staff is eager to help.

Sincerely,



Deborah Senn  
Washington State Insurance Commissioner



# From the

## **The Choice is Yours**

When you buy a home, the mortgage holder may suggest a particular company for your homeowner insurance. Remember that you are under no obligation to accept this suggestion. It is up to you to decide which insurer best meets your needs. However, your mortgage holder can insist that you purchase adequate insurance coverage.

It is still your decision how much insurance to carry (more about that later). According to Washington law, the mortgage holder cannot insist that you insure your home for an amount beyond what you could actually collect, or beyond the replacement cost.

## **Who should purchase homeowner insurance?**

Owners of single- or multi-family homes, farms and/or mobile homes.

## **What about renters?**

Tenants, or renters, don't need to protect the structure they are renting. But they do need coverage if they want to protect their possessions against the perils of theft, fire, storms – or any of the other events covered by homeowner insurance.

## **Special Valuables**

Very expensive jewelry or other valuables may require an extra rider or endorsement.



# From the

## What Do Homeowner Policies Cover?

**Property** is covered for damage from perils. **Perils** are events that cause damage. Common perils such as fire or wind damage, theft or frozen plumbing are covered by most homeowner policies. While damage from volcanic eruptions is also covered, basic policies do **not** include coverage for three specific perils – for landslides, earthquakes and floods, you must purchase additional coverage.

**Personal property** is covered for its actual cash value at the time of loss, unless you request replacement value coverage. For example: a 10-year-old television is worth a lot less than you paid for it and less than what it would cost to replace it. Personal property includes household contents and other personal belongings that you or your family use, own or wear. Usually there are policy limitations on items such as furs, jewelry, cameras, antiques, collections, silver, boats and other specific items; thus you may wish to get a special endorsement (or “schedule”) that will make sure special items are covered.

**Theft** is normally included in coverage on personal property. However, certain items such as gun collections or expensive jewelry may be subject to coverage limitations. To cover the full value of expensive items, you can request a special limits endorsement for an additional premium.

**Medical payments** cover accidental injuries to other people on your property – but not injuries to members of your household. Coverage applies regardless of fault. For example, if your friend visits and trips on a rug, breaking his ankle, his medical expenses are covered. If you break your ankle tripping on the rug, you would not be covered. (Although you probably would be reimbursed for the medical expenses by your health insurer.)

**Liability coverage** protects other people from damages for which you may be liable. For example, your backyard grill may throw sparks on the neighbor’s house, starting a fire. If you were sued, your insurance company would pay the legal cost of your defense, and if the plaintiff won, the carrier would pay damages to the limit of your policy.

Liability also may extend to accidents that occur off your property, provided they are caused by you, a member of your family or your pets.

## What About Coverage For...

**Mobile homes?** Policies are similar to those for conventional homes, but have additional provisions specific to mobile homes. For example, they usually include the cost of moving your home to avoid damage from flood, windstorms and other specified perils.

**Farms or ranches?** Policies are similar to those of homeowners but include special additions for farm or ranch buildings and equipment.

### **Travel trailers, camping trailers, motor homes?**

They are insured under automobile or special policies.



## What Does Renter Insurance Cover?

Renters can purchase a policy that covers **personal property** for the same perils as regular homeowner insurance. It does not cover the structure the renter inhabits (and your landlord's policy does not cover your personal possessions). The policy also provides liability coverage, including damages caused by your negligence. For example, a kitchen grease fire may cause smoke damage, which would be repaired by your landlord but paid for by your insurer. Your policy may cover living expenses if wind, fire or other covered perils damage your apartment, rendering it uninhabitable.

# Ground Up

## How Much Basic Insurance Should You Buy?

Most policies require you to insure your home for at least 80% of its replacement cost. But most experts recommend that you cover the full replacement cost. Ask yourself if your house burned to the ground, how much would it cost to replace it? **Replacement cost** policies mean you will be covered for the cost of labor and materials necessary to build your home today.

If your home is several years old, you may be underinsured because its replacement value may have increased with inflation. It is wise to have your house appraised every few years, and to adjust your insurance coverage accordingly. You may wish to get an **inflation guard endorsement** for your policy, which means that the amount of protection automatically increases at certain intervals.

Levels of coverage: If you occupy your own home, you may choose from four types of homeowner policies. Although terms differ from company to company, they are often known as: **Basic** form (least expensive), **Broad** form, **Special** form, **Comprehensive** form (most expensive).



## What Additional Insurance Is Available For Purchase?

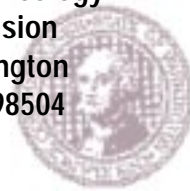
**Earthquake coverage** is not part of a basic homeowner policy. If you want to insure your home against earth movement, you must purchase coverage as an add-on (endorsement) to your policy. Unlike most homeowner or renter policies, earthquake insurance is catastrophic insurance, and it primarily covers major losses. Normally the deductible (amount you pay for damages before coverage kicks in) is between 10 and 20 percent of the total limit on your insurance, and recently has been increasing. Some policies treat the deductible for contents and structure separately. Thus deductibles – for your personal possessions, for the house, garage, sheds, and driveway – may vary considerably.

**Flood insurance** is offered by the federal government under the National Flood Insurance Program (NFIP). Examples of flood insurance coverage are included in the accompanying cost comparison guide on page 9.

The **National Flood Insurance** Act of 1968 made federally subsidized flood insurance available to communities that meet the eligibility requirements. Almost all communities in Washington are eligible, including homes or cabins on hillsides that have been burned off by summer wildfires and are therefore susceptible to flash floods. Ask your broker if you qualify or write to either of the following:

Federal Insurance Administration  
U.S. Department of Housing  
Urban Development  
Washington, D.C. 20410

Department of Ecology  
Shorelines Division  
State of Washington  
Olympia, WA 98504



**FAIR** (Fair Access to Insurance Requirements) covers inner city areas of Seattle, Tacoma or Pasco, where access to other comprehensive coverage may be limited. FAIR is a group of insurance companies that pool resources to cover all losses. The basic FAIR Plan policy covers the following perils: fire and lightning, extended coverage, vandalism and malicious mischief. *Read the contract carefully for exclusions.* **Extended coverage** includes windstorm, hail, explosion, riot, as well as riot accompanying a strike or civil commotion, aircraft or motor vehicles, and smoke. Ask your agent or broker to write to:

Washington FAIR Plan  
Alaska Building  
618 Second Ave.  
Seattle, WA 98104  
Or call (206) 367-6270

**Nonstandard coverage:** Some areas of Washington may be considered nonstandard -- for example, a rural area without water or electrical utility services available. If you have difficulty obtaining insurance in such an area, call Commissioner Senn's hot line (1-800-562-6900) for assistance.



# Ground Up

## Don't Make A Tragedy Worse

Linda and Mark C. returned from a night out to find their 3-bedroom home had burned down. Their policy burned down with it, and they had no proof of what their home contained. Trying to reconstruct the contents as well as the value of all the items in their home only intensified their nightmare. To this day they are certain they did not recover nearly what they were due. *Don't let this happen to you.*

Take steps now to facilitate the processing of any future claims:

- ◆ **Make a** written inventory of the contents of your home, and if possible, a room-by-room videotape (include closet interiors).

- ◆ **Take photos** of the outside of your home from several angles.

- ◆ **Obtain appraisals** of special valuables, such as antiques and jewelry, stamps, coins and other collections.

- ◆ **Keep your** policy in a safe deposit box along with the photos and appraisals. Or put them in a secondary location -- for example, your office or a relative's or friend's home.

- ◆ **Update** your records periodically -- at least once every three or four years.



# From the

## Understanding Your Policy

A homeowner policy combines mandatory coverage plus optional coverage, and should be tailored to meet your needs. You will be dealing with these elements:

**Coverage A: Dwelling** – covers your house and attached structures such as garage, greenhouse, and decks. The dollar amount should cover the cost of rebuilding. Most experts recommend replacement-value policies.

**Coverage B: Other Structures** – covers unattached structures such as in-ground pools, unattached garages. Amount of coverage is usually set at a percentage of Coverage A.

**Coverage C: Personal Property** – covers possessions, such as furniture, clothing, appliances, etc. This also covers movable and borrowed property owned by a visiting guest. Amount is usually set at a percentage of Coverage A.

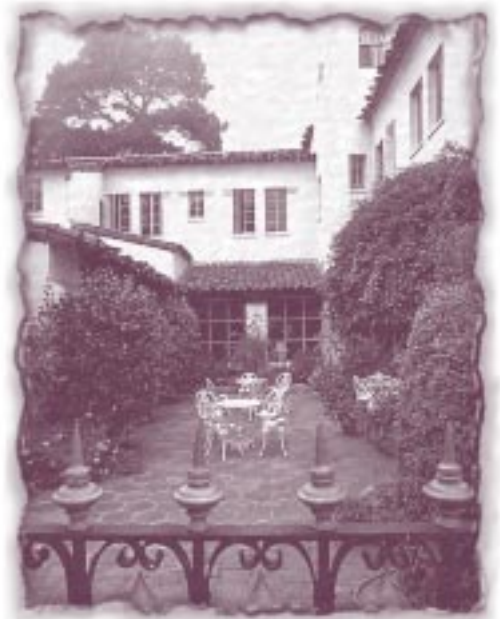
**Coverage D: Loss of Use** – covers additional living expenses if a loss makes your property uninhabitable. Expenses include hotel bills, food, laundry, etc.

**Coverage E: Liability** – covers legal costs and judgment or settlement costs if a lawsuit is brought against you because of injury to a third party or property damage. A standard dollar amount is \$100,000 but can be increased.

**Coverage F: Medical Payment to Others** – covers medical costs for injuries of others through your personal activities or while they are on your property.

### If You Need Our Help...

If you have questions or concerns, please call our toll-free Consumer Hot Line at **1-800-562-6900**.



# From the



This Consumer's Guide is one of a series  
prepared by the Office of the Insurance Commissioner.  
Any insurance consumer who needs help with an insurance problem  
or who feels he or she is not being treated fairly by an insurer, please call  
**1-800-562-6900.**

A special arm of the Insurance Commissioner's Office offers information  
and counseling on Medicare, Long-Term Care Insurance,  
employee-related benefits and pre-retirement planning. Please call our  
Statewide Health Insurance Benefits Advisors (SHIBA) referral line,  
**1-800-397-4422**

You can also visit the Office of the Insurance Commissioner Web Page at  
<http://www.wa.gov/ins>

